Best Practices in Preparing an Integrated Results Analysis

Guidelines for Government Organizations

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Best Practices in Preparing an Integrated Results Analysis[1]

Guidelines for Government Organizations

1. Introduction: Accurately Judging Performance

Good annual reports communicate reliable and relevant information about an organization's performance. They allow readers to relate and compare financial and non-financial performance over time and assess whether an organization has met its goals.

The results analysis section of an annual report, also known as *Management Discussion and Analysis*, can effectively show how an organization has performed. Management, through its results analysis, states what it achieved with the resources that it consumed. This guide gives best practices in preparing the results analysis in annual reports of government organizations—many of the concepts also apply to private sector annual reports.

2. Management's View of Performance: Why it's Important

By examining financial and non-financial information, such as financial statements and performance measures in annual reports, readers can compare actual to planned results, and current to prior year results. But they can't see what led to the results. They can't see if or how their taxes led to the benefits reported by the performance measures. Therefore, reporting only numerical results information has limited usefulness in assessing performance and its sustainability.

Management's view, in the form of an integrated results analysis, is crucial. Management knows the context that produced the results. Management has unique knowledge and insights, and understands, better than others, the goals, strategies, environments, and challenges. By communicating this information in an integrated results analysis, management can put the results in context.

An integrated results analysis allows readers to view and assess, through management's eyes, an organization's performance. With this analysis, readers of annual reports can assess the stewardship of management.

3. Integrated Results Analysis: Combining Financial and Non-financial Performance

Integrating financial and non-financial performance information is an important emerging practice in performance reporting. The next sections describe why and how the practice works.

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[1] An Integrated Results Analysis brings together financial and non financial information to explain the cost effectiveness of an organization's activities

3.1 **The benefits of an integrated results analysis**—a good integrated results analysis is a powerful tool allowing readers to:

a) **see** the non-financial and financial results of spending.
b) **relate** the costs of core businesses to goals and performance measures.
c) **split** aggregated sums into their meaningful components.

3.2 **The model for the analysis**—there is no generally accepted model to integrate financial and non-financial information in a results analysis. We suggest organizing the analysis around core businesses with an integrated picture of the related goals, performance measures, and strategies. **This model works to plan, monitor, and report on costs and results—as long as you:**

a) **define core businesses as a major group** of related strategies and activities producing outputs that are designed to achieve one or more goals.
b) **use core businesses** as the primary category for allocating resources.
c) **link planned and actual costs of core businesses** to your organization's income statement.
d) **link each goal to one core business.**
e) **include at least one performance measure for each goal.**

A chart which shows a possible model for an integrated results analysis is attached as Appendix I.

3.3 The components of the analysis—**use the integrated results analysis to complement and supplement the financial statements, but not to duplicate them or their notes. Discussion of core businesses must focus concisely on the significant aspects of the results. If any of the following information is already in your business plan and it is public, just summarize it in the results analysis and point readers to the business plan for more detail.**

For each core business, include the following four kinds of information:

a) **An analysis of core business costs and key components of financial statements that:**

i. shows planned and actual costs of core businesses and explains significant variances between the two. If there's comparative data from prior years, the analysis should explain any variations between it and data from the current year.
ii. discusses any significant changes to planned costs. These could include budget reductions or increases from supplementary estimates.

iii. discusses significant changes to key components in the financial statements in the context of the core business the change affects most. Some examples of key financial statement components are revenue and asset classes.

b) **Analysis of goals and performance measure results that:**

i. links goals to performance measures and discusses both in the context of the unique core business.
ii. compares actual performance to goals, performance measures, and targets in the business plan. The section should describe the effects of any significant changes, such as funding changes, and link costs of significant programs to their goals and performance measures.
iii. explains the following four things:
    1) significant variances between results and targets and between the current and previous years.
    2) how the ministry is adjusting to achieve unmet goals.
    3) how strategies and programs have had a significant impact on results.
    4) the effects of significant external factors on performance.

c) **A description of any significant unusual or infrequent events**, such as a major program being discontinued.

d) **Forward-looking information** discussing known events, commitments, and uncertainties that can reasonably be expected to significantly affect future performance.

3.4 **Preparing the analysis**—the model described in the previous two subsections outlines the general components of an analysis, but there is **no precise template**—the type of disclosure depends on matters such as the nature and size of an organization. The best results analysis are drawn from internal management reports. Results analysis can assist management throughout a period. Put another way, results analysis should not be an end of the year burden. It should be part of the ongoing management information system. **The process of preparing involves the following steps:**

a) **Monitoring actual to budgeted and prior year results on a regular basis**, typically a quarterly basis during the year. Explanations would be provided for significant variances.
b) **Preparing a budget or business plan for the following year.** Forecast expected performance for the current year and the next year and explain significant variances. In addition, include an analysis of risks and opportunities, outlining factors that could affect the budget or business plan for the following year.

Step a) provides excellent raw material for a first draft of a results analysis. Step b) helps to identify trends, demands, risks and uncertainties which can be included as forward looking information. Management can then use this draft results and analysis to systematically evaluate whether events are likely to occur and whether they would be significant. Both operating and financial management should review the draft.

Some organizations find that the discipline to prepare a results analysis strengthens and sharpens management's focus. It can yield new insights into critical success factors, promote accountability and controls, and help measure performance.

4. Content Guidelines for an Integrated Results Analysis

Information in an integrated results analysis should satisfy the following guidelines. It should:

- be relevant and significant
- focus on results and achievements
- compare planned to actual results
- link achievements to activities
- describe risks and uncertainties
- include forward-looking information
- include performance measures that are reliable, understandable, and comparable

Many of the above guidelines or attributes have been discussed in this document. Further information relating to them is included in recent CCAF publications in the reference material in part 7 of this document. Standards relating to the preparation of ministry annual reports issued by Alberta Finance also provide guidance relating to results analysis.

5. Conclusion

Annual reports, and their results analysis section, are key tools for managing and governing organizations. Because integrated results analysis is an emerging area of practice, we expect to update these guidelines based on experience in applying them.

6. Good Examples of an Integrated Results Analysis of Financial and Non-financial Performance

6.1 New Zealand Department of Education
www.minedu.govt.nz

The 1999-2000 Annual Report illustrates how operational and financial performances of the Department are reviewed together, to better understand the relationships between efforts and accomplishments. Pages 73-79 summarize actual and planned costs; pages 80-139 give further detail of performance on outputs.

6.2 Royal Canadian Mounted Police

www.rcmp-grc.gc.ca

The Royal Canadian Mounted Police Performance Report shows results-based accountability reporting. First it has an overview of operations, highlighting performance and discussing challenges. Then it becomes more specific, focusing on core businesses and specific goals. The section on goals has the following key components for discussion:

- Problem
- Strategies/expectations
- Partners
- Inputs
- Outputs
- Performance indicators
- Results
- Planned improvements

7. References

Andrews, Larraine, Alberta Venture (January/February 2001), *How to create an award-winning annual report.*

The Audit Office of New South Wales, *Performance Audit Report, Judging Performance from Annual Reports, Review of eight agencies' annual reports.*

Canadian Institute of Chartered Accountants, *Management's Discussion and Analysis, Guidance on Preparation and Disclosure*, A Publication of the Canadian Performance Reporting Initiative Board, Review Draft, December 2001

CCAF-FCVI, *Principles for Building a Public Performance Report* – A Discussion Paper From Canada's Legislative Audit Community, July 1999

CCAF-FCVI, *Public Performance Reporting: A Management Perspective*, 2001

Federal Accounting Standards Advisory Board (April 1999), *Statement of Recommended Accounting Concepts Number 3: Management's Discussion and Analysis.*

Graul, Leland E., and Jeffrey W. Lenz and Michael P. Krzus, *Practical Tips for Writing MD&A*, The Journal of Corporate Accounting and Finance / summer 1996.

KPMG (Fall 2001), *Accountability Reporting Trends & Techniques.*

Office of the Chief Accountant, Ontario Securities Commission (January 1993) *Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) Guide*

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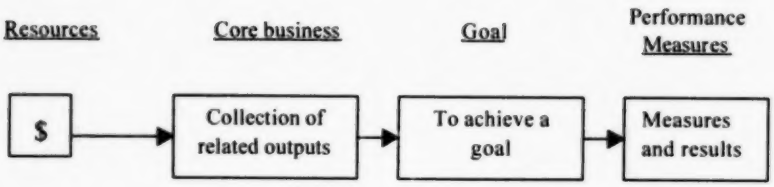
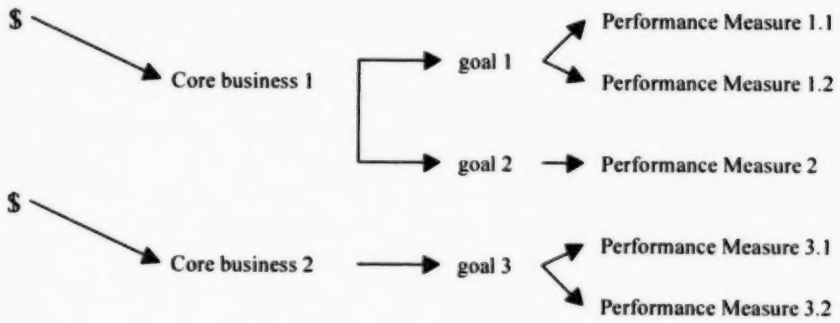
Integrated Results Analysis
Disclosure Framework





This model includes:

- a graphic illustration of the relationship of items in an Integrated Results Analysis Disclosure Framework
- two examples of alternative methods of structuring such an analysis by core business